FDIC State Profile

Spring 2006

Washington

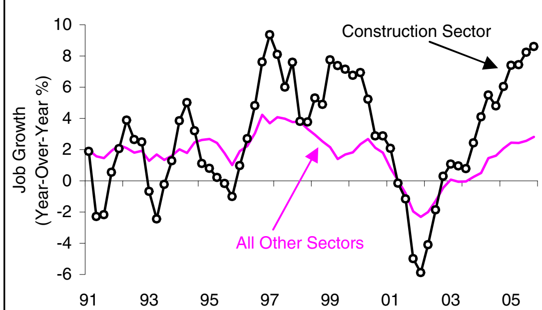
Washington job growth continued to strengthen.

- Washington added jobs at a brisk 3.2 percent pace in the year-ending fourth quarter 2005 and ranked eighth among the states.
- Population inflows and rising home prices fueled job gains. The state's construction sector reported an 8.6 percent growth rate during the year ending fourth quarter 2005 and accounted for nearly one in five new jobs (see Chart 1). Job gains in other sectors, led by business services, education/health services, manufacturing, and retail trade, were comparatively flat.
- Job growth in 2005 was concentrated in metropolitan areas around **Puget Sound** and the Olympic peninsula. **Bellingham** recorded the strongest year-over-year employment growth rate of 4.7 percent in Washington, ranking 32nd among the nation's 367 metropolitan areas.
- Forecasts indicate that job gains will accelerate in 2006 as manufacturing activity increases and construction activity remains strong.[1]

Housing market conditions remained solid.

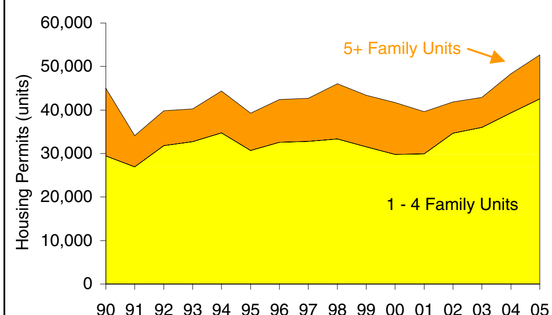
- Washington continued to attract new residents and reported a record level of housing permits issued in 2005 (see Chart 2). Year-over-year home price gains in the state accelerated to 18.4 percent in fourth quarter 2005 and continued to outpace the nation. The state likely will continue to report construction employment gains in 2006 should housing demand remain strong.
- Nevertheless, deteriorating house price affordability, particularly in Bellingham and **Seattle**, and rising interest rates may weigh on the state's housing market going forward.
- Innovative mortgages and investors may be influencing Washington housing demand. Interest-only and negative amortization loans accounted for 53 percent of non-prime mortgage originations in the state during the first 11 months of 2005. During the same period, investors and

Chart 1: Construction Sector Job Growth in Washington Outpaced Gains in Other Sectors



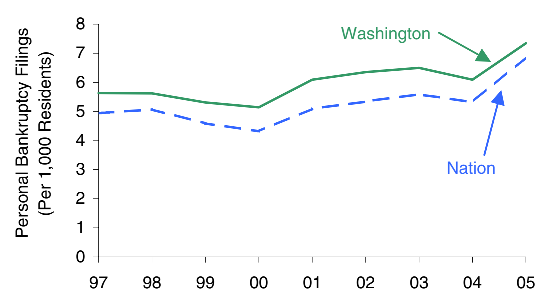
Source: Bureau of Labor Statistics

Chart 2: Washington Housing Permits Reached Record Levels in 2005



Source: Census Bureau

Chart 3: The Bankruptcy Filing Rate Increased in Washington and Outpaced the Nation in 2005



Sources: Administrative Office of the U.S. Courts, Census Bureau, Haver Analytics

[1] Forecast data from Moody's Economy.com.

second-home purchasers accounted for 20 percent of Washington Alt-A mortgage originations.[2]

Washington consumers face increasing pressure.

- High energy costs will continue to burden households' pocketbooks as nearly 90 percent of homes in the state are heated using natural gas or electricity and will likely persist in 2006.[3]
- Rising interest rates and higher minimum payments on credit card balances could pressure some consumers.
- Personal bankruptcy filings in Washington increased in 2005, rising to 7.3 filings per thousand residents, in large part because of new bankruptcy legislation that took effect in October 2005 (see Chart 3). Forecasts indicate that the state's filing rate will decline in 2006 but then drift upward in 2007.[4]

Overall loan growth expanded and commercial real estate (CRE) concentrations remained high.

- Overall loan growth was up slightly in Washington State during 2005 and at 16.3 percent ranked seventh nationally. Construction and development (C&D) portfolios grew at 47.5 percent, the fifth highest in the country, up from a year-earlier rate of 28.4 percent and was the driver for loan growth among Washington State institutions (see Chart 4.)
- As a result, over 55 percent of Washington-based banks and thrifts held C&D loans in excess of Tier 1 capital by the end of 2005, compared to less than 20 percent of institutions at year-end 1997.
- Other CRE, including multi-family loans slowed to an 11.0 percent median growth rate from the prior year level of over 20.2 percent. Washington ranked fifth in the nation at year-end 2005 with a median CRE loan to Tier 1 capital concentration of 417.9 percent versus a national median of 192 percent (see Chart 5).
- Strong economic conditions aided Seattle CRE fundamentals as industrial market vacancy rates reached their lowest levels since 2001, while rents remained near a historical peak. Seattle's office properties are recovering slowly with annual improvements in vacancies, but rents were about $22.00 per square foot, well below the $32.00 per square foot high reached in 2000.

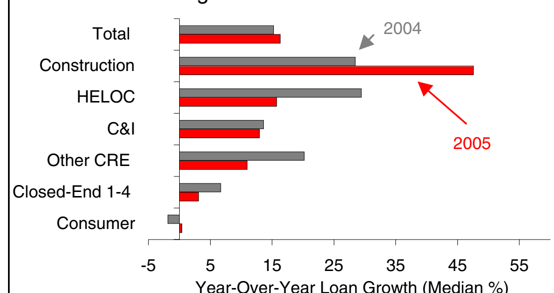
[2]Based on subprime and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages that have near-prime credit quality, lack full loan documentation, or are secured by investor properties.
[3]Forecast data from the Energy Information Administration's 2006 Annual Energy Outlook.
[4]Forecast filing rate calculated using Moody's Economy.com forecast data for bankruptcy filings and population.

- As of fourth quarter 2005, Washington-based institutions reported a 0.14 percent median for past-due CRE loans well below the national median of 0.46 percent.

Rising interest rates boosted quarterly net interest margins (NIMs), but tempered investment portfolio values.

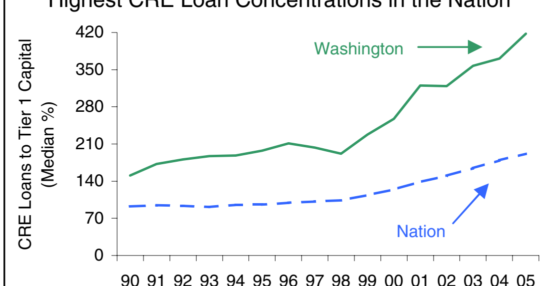
- Washington-based insured institutions continued to report excellent quarterly earnings. The median fourth quarter pretax return on asset ratio improved to 1.53 percent, ranking 15th nationally.
- NIMs improved from the prior year as increases in interest income offset increases in interest expense.
- Rising interest rates reduced opportunities for securities gains in 2005 as only 4.5 percent of Washington State banks reported quarterly securities gains, down from 18.0 percent a year earlier.
- Overall past-due loan levels at Washington institutions increased slightly year-over-year to 0.69 percent, the 11th lowest delinquency rate among the states and Washington, D.C.

Chart 4: Construction Portfolios Drove Washington Loan Growth in 2005



Note: C&I is commercial and industrial; other commercial real estate (CRE) includes multifamily and nonfarm-nonresidential mortgages; and HELOC is home equity line of credit. (December 31 of each year). Source: FDIC

Chart 5: Washington Institutions Reported the Fifth Highest CRE Loan Concentrations in the Nation



Note: Commercial real estate (CRE) loans include multifamily, construction, and nonfarm-nonresidential mortgages secured by either owner-occupied or investor-owned properties. Source: FDIC (December of each year)

Washington at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	3.2%	2.9%	2.3%	1.6%	0.1%
Manufacturing (10%)	4.2%	2.3%	1.1%	-1.3%	-6.3%
Other (non-manufacturing) Goods-Producing (7%)	7.7%	7.5%	6.2%	5.2%	0.8%
Private Service-Producing (65%)	3.4%	3.2%	2.6%	2.1%	0.9%
Government (19%)	0.4%	0.4%	0.8%	0.6%	0.9%
Unemployment Rate (% of labor force)	5.4	5.6	5.9	6.3	7.4

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.4%	18.2%	7.9%	2.0%
Single-Family Home Permits	12.8%	11.2%	12.6%	7.9%	4.4%
Multifamily Building Permits	-1.1%	-4.6%	136.3%	29.6%	-3.9%
Existing Home Sales	3.3%	20.0%	14.6%	11.6%	13.8%
Home Price Index	18.4%	16.2%	11.5%	9.5%	4.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	9.36	7.43	5.42	6.10	6.49

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	96	99	98	98	100
Total Assets (in millions)	57,829	56,487	78,503	78,503	78,395
New Institutions (# < 3 years)	6	7	8	8	6
Subchapter S Institutions	7	7	7	7	5

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.69	0.58	0.62	0.62	0.92
ALLL/Total Loans (median %)	1.26	1.29	1.28	1.28	1.37
ALLL/Noncurrent Loans (median multiple)	3.72	2.82	2.75	2.75	1.91
Net Loan Losses / Total Loans (median %)	0.03	0.02	0.10	0.11	0.12

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.15	10.25	9.93	9.93	9.67
Return on Assets (median %)	1.13	1.21	1.00	1.05	1.06
Pretax Return on Assets (median %)	1.53	1.67	1.41	1.53	1.46
Net Interest Margin (median %)	4.98	4.96	4.75	4.68	4.59
Yield on Earning Assets (median %)	7.28	7.11	6.34	6.19	6.31
Cost of Funding Earning Assets (median %)	2.33	2.12	1.59	1.49	1.72
Provisions to Avg. Assets (median %)	0.16	0.16	0.22	0.23	0.24
Noninterest Income to Avg. Assets (median %)	0.56	0.58	0.59	0.62	0.65
Overhead to Avg. Assets (median %)	3.70	3.36	3.65	3.56	3.52

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	77.8	76.4	76.0	76.0	72.8
Noncore Funding to Assets (median %)	26.4	25.7	23.0	23.0	21.6
Long-term Assets to Assets (median %, call filers)	11.5	11.3	14.3	14.3	15.5
Brokered Deposits (number of institutions)	46	46	44	44	34
Brokered Deposits to Assets (median % for those above)	5.0	4.8	3.1	3.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	112.9	103.7	111.8	111.8	116.3
Commercial Real Estate	417.9	402.8	371.2	371.2	357.1
Construction & Development	120.6	99.6	79.8	79.8	68.5
Multifamily Residential Real Estate	20.7	23.9	25.3	25.3	23.5
Nonresidential Real Estate	220.2	226.3	239.5	239.5	232.8
Residential Real Estate	89.2	85.8	103.7	103.7	107.0
Consumer	21.7	21.3	23.3	23.3	23.9
Agriculture	5.2	5.7	2.9	2.9	2.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Seattle-Tacoma-Bellevue, WA	78	58,440	< $250 million	51 (53.1%)
Spokane, WA	17	5,514	$250 million to $1 billion	33 (34.4%)
Bellingham, WA	14	2,517	$1 billion to $10 billion	12 (12.5%)
Olympia, WA	19	2,313	> $10 billion	0 (0%)
Bremerton-Silverdale, WA	17	2,120		